

12. ACCOUNTANTS' REPORT (Cont'd)**3.9 SESSB**

	← Audited →					
	← Year ended 31 July →					6 months ended 31 January 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	-	-	-	-	-	6,458
EBIDTA***	(14)	(2)	(2)	(3)	(3)	2,298
Depreciation	-	-	-	-	-	(1)
Profit before taxation	(14)	(2)	(2)	(3)	(3)	2,297
Taxation	-	-	-	-	-	(643)
Profit after taxation	(14)	(2)	(2)	(3)	(3)	1,654
Number of ordinary shares of RM1.00 each in issue ('000)						
- 2 ordinary shares of RM1 each						
- 499,998 ordinary shares of RM1 each and paid up to RM0.50	500	500	500	500	500	500
Earnings per share (sen)						
- Gross	(2.80)	(0.40)	(0.40)	(0.60)	(0.60)	459.4
- Net	(2.80)	(0.40)	(0.40)	(0.60)	(0.60)	330.8
Effective tax rate (%)	-	-	-	-	-	28.00

There is no interest expense, amortisation charge or extraordinary item for the year/period under review.

*** *Earnings before interest, depreciation, taxation and amortisation*

Notes: -

- a) Previously the principal activities of SESSB consist of trading and contracting of steel gratings and other types of floor grating. It became dormant in 1997.

Subsequently in the financial period 2003, SESSB changed its principal activity to be that of operation and maintenance of water treatment plants and re-commenced operations.

- b) There were no exceptional items for all the years/period under review.
- c) Gross and net earnings per share are calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)**3.10 SBSSB**

	← Audited →					
	← Year ended 31 July →					6 months ended 31 January 2003
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-	-	-
Loss before taxation	(1)	(2)	(3)	(3)	(353)	(1)
Taxation	-	-	-	-	-	-
Loss after taxation	(1)	(2)	(3)	(3)	(353)	(1)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,400	1,400	1,400	1,400	1,400	1,400
Earning per share (sen)	(0.07)	(0.14)	(0.21)	(0.21)	(25.21)	(0.07)

There is no depreciation, interest expense, amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) SBSSB recommenced its operation as building contractors in 2002 and expenses incurred consisted mainly of staff cost and rental expenses. However, no revenue was recognised because the completion stage of the projects were not significant.

There were no further activities in respect of the projects in 2003.
- b) There were no exceptional items for all the years/period under review.
- c) Earnings per share is calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**3.11 SKSB**

	← Audited →					
	← Year ended 31 July →					6 months ended 31 January 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Revenue	-	-	-	-	-	-
Loss before taxation	(1)	(2)	(40)	(3)	(3)	(1)
Taxation	-	-	-	-	-	-
Loss after taxation	(1)	(2)	(40)	(3)	(3)	(1)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Earnings per share (sen)	(0.1)	(0.2)	(4.0)	(0.3)	(0.3)	(0.1)

There is no depreciation, interest expense, amortisation charge or extraordinary item for the year/period under review.

Notes: -

- a) There were no exceptional items for all the years/period under review.
- b) Earnings per share is calculated based on profit before taxation and after taxation, respectively, on the number of ordinary shares in issue.

3.12 EMCCSB, SASB, SSSB, SCSB and SWHK

No financial information is presented as these companies are insignificant to the Salcon Group.

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4 Summarised Balance Sheets****4.1 SEB Group**

The following financial information of SEB Group is based on the audited financial statements of SEB Group for the financial years ended 31 July 1998 to 2002 and six-month ended 31 January 2003.

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	13,874	16,947	18,245	15,689	16,398	17,521
Investment in associated company	17,950	31,862	33,775	35,980	40,564	59,215
Other investment	-	-	-	-	140	140
Intangible assets	261	243	218	200	3,678	3,604
Amount owing from holding company	30,316*	39,538*	16,923*	-	-	-
Current assets	112,745	90,322	86,498	168,247	183,268	227,171
Less: Current liabilities	(121,383)	(108,085)	(79,135)	(134,510)	(146,667)	(196,488)
Net current (liabilities)/assets	(8,638)	(17,763)	7,363	33,737	36,601	30,683
	53,763	70,827	76,524	85,606	97,381	111,163
Financed by :-						
Share capital	20,000	20,000	20,000	20,000	20,000	20,000
Capital reserve	300	300	300	300	300	300
Revaluation reserve	-	-	-	97	97	97
Retained profits	31,939	46,447	54,648	64,695	73,291	84,753
Shareholders' funds	52,239	66,747	74,948	85,092	93,688	105,150
Minority interest	-	-	215	312	3,055	4,782
Deferred taxation	1,524	1,524	-	-	17	122
Hire purchase creditor	-	242	103	-	621	1,109
Bank borrowings	-	2,314	1,258	202	-	-
	53,763	70,827	76,524	85,606	97,381	111,163
Number of ordinary shares of RM1.00 each in issue at year end ('000)	20,000	20,000	20,000	20,000	20,000	20,000
Net tangible assets ("NTA") (RM'000)	51,978	56,266	63,761	74,501	80,198	75,168
NTA per ordinary share (RM)	2.60	2.81	3.19	3.72	4.01	3.76

* Amount was reclassified to short term in subsequent years as the management did not specify any terms of the repayment for the holding company

12. ACCOUNTANTS' REPORT (Cont'd)**4.2 SEB**

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,352	1,792	2,440	1,811	2,832	3,337
Investments	20,039	34,911	34,921	34,921	41,764	58,761
Amount due from holding company	30,316*	-	-	-	-	-
Current assets	115,107	128,504	116,247	172,744	167,163	201,741
Less: Current liabilities	(113,868)	(101,541)	(85,454)	(134,510)	(133,368)	(179,592)
Net current assets	1,239	26,963	30,793	38,234	33,795	22,149
	52,946	63,666	68,154	74,966	78,391	84,247
Financed by :-						
Share capital	20,000	20,000	20,000	20,000	20,000	20,000
Retained profits	31,422	41,900	48,051	54,966	57,770	63,346
Shareholders' funds	51,422	61,900	68,051	74,966	77,770	83,346
Deferred taxation	1,524	1,524	-	-	-	-
Hire purchase creditor	-	242	103	-	621	901
	52,946	63,666	68,154	74,966	78,391	84,247
Number of ordinary shares of RM1.00 each in issue at year end ('000)	20,000	20,000	20,000	20,000	20,000	20,000
Net tangible assets ("NTA") (RM'000)	51,422	61,900	68,051	74,966	77,770	83,346
NTA per ordinary share (RM)	2.57	3.10	3.40	3.75	3.89	4.17

* Amount was reclassified to short term in subsequent years as the management did not specify any terms of repayment for the holding company

12. ACCOUNTANTS' REPORT (Cont'd)**4.3 SCESB**

	← Audited →					
	← As at 31 July →					As at 31 January 2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Property, plant and equipment	107	65	212	265	222	199
Current assets	2,537	2,593	4,359	6,189	8,741	7,303
Less: Current liabilities	(1,002)	(902)	(2,583)	(3,524)	(5,815)	(4,332)
Net current assets	1,535	1,691	1,776	2,665	2,926	2,971
	1,642	1,756	1,988	2,930	3,148	3,170
Financed by :-						
Share capital	3,000	3,000	3,000	3,000	3,000	3,000
(Accumulated losses) /Retained profits	(1,358)	(1,244)	(1,012)	(70)	148	170
Shareholders' funds	1,642	1,756	1,988	2,930	3,148	3,170
Number of ordinary shares of RM1.00 each in issue at year end ('000)	3,000	3,000	3,000	3,000	3,000	3,000
Net tangible assets ("NTA") (RM'000)	1,642	1,756	1,988	2,930	3,148	3,170
NTA per ordinary share (RM)	0.55	0.59	0.66	0.98	1.05	1.06

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.4 SRSB**

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	12,406	15,088	15,595	13,616	11,230	11,099
Current assets	1,822	1,633	1,435	1,351	312	308
Less: Current liabilities	(12,499)	(14,803)	(16,181)	(15,258)	(11,481)	(11,368)
Net current liabilities	(10,677)	(13,170)	(14,746)	(13,907)	(11,169)	(11,060)
	1,729	1,918	849	(291)	61	39
Financed by :-						
Share capital	500	500	500	500	500	500
Accumulated losses	(894)	(896)	(909)	(993)	(439)	(461)
Shareholders' funds	(394)	(396)	(409)	(493)	61	39
Bank borrowings (secured)	2,123	2,314	1,258	202	-	-
	1,729	1,918	849	(291)	61	39
Number of ordinary shares of RM1.00 each in issue at year end ('000)	500	500	500	500	500	500
Net tangible assets ("NTA") (RM'000)	(394)	(396)	(409)	(493)	61	39
NTA per ordinary share (RM)	(0.79)	(0.79)	(0.82)	(0.99)	0.12	0.08

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.5 ESB**

	← Audited →						
	← Consolidation Level →					Company Level**	
	As at 31 December					As at 31 July	As at 31 January
	1997	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	2,690	3,244	4,268	6,211	7,298	2,116	2,852
Investments	49	189	189	140	140	140	140
Goodwill on consolidation	45	86	69	47	31	-	-
Current assets	5,253	10,695	12,709	10,976	11,776	15,003	26,370
Less: Current liabilities	(4,632)	(10,421)	(10,934)	(10,072)	(14,481)	(10,667)	(17,652)
Net current assets/(liabilities)	621	274	1,775	904	(2,705)	4,336	8,718
	3,405	3,793	6,301	7,302	4,764	6,592	11,710
Financed by :-							
Share capital	1,300	1,300	2,600	2,600	3,500	3,500	3,500
Share premium	83	83	83	83	83	65	65
Revaluation reserve	-	-	-	-	-	224	224
Retained profits	1,540	2,037	3,376	4,598	1,164	2,786	7,591
Shareholders' funds	2,923	3,420	6,059	7,281	4,747	6,575	11,380
Deferred taxation	47	32	9	9	17	17	122
Bank borrowings	263	276	196	-	-	-	-
Hire purchase creditors	164	65	37	12	-	-	208
Minority interest	8	-	-	-	-	-	-
	3,405	3,793	6,301	7,302	4,764	6,592	11,710
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,300	1,300	2,600	2,600	3,500	3,500	3,500
Net tangible assets (NTA) (RM'000)	2,878	3,334	5,990	7,234	4,716	6,575	11,380
NTA per ordinary share (RM)	2.21	2.56	2.30	2.78	1.35	1.88	3.25

** Consolidated financial statements were prepared for the years ended 31 December 1997 to 2001, whereas the financial statements for the period ended 31 July 2002 and 31 January 2003 were prepared on the Company Level basis due to the disposal of all its subsidiary companies during the financial period ended 31 July 2002.

12. ACCOUNTANTS' REPORT (Cont'd)**4.6 PMSB**

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	11	5	-	-	-	-
Current assets	5,726	14,780	5,933	2,927	2,922	2,921
Less: Current liabilities	(5,221)	(11,899)	(3,016)	(63)	(62)	(62)
Net current assets	505	2,881	2,917	2,864	2,860	2,859
	516	2,886	2,917	2,864	2,860	2,859
Financed by :-						
Share capital	200	200	200	200	200	200
Capital reserve	71	71	-	-	-	-
Retained profits	245	2,615	2,717	2,664	2,660	2,659
Shareholders' funds	516	2,886	2,917	2,864	2,860	2,859
Number of ordinary shares of RM1.00 each in issue at year end ('000)	200	200	200	200	200	200
Net tangible assets ("NTA") (RM'000)	516	2,886	2,917	2,864	2,860	2,859
NTA per ordinary share (RM)	2.58	14.43	14.59	14.32	14.30	14.30

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.7 BTESB**

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Investment in subsidiary companies	673	673	673	673	673	673
Current assets	4,619	10,407	2,957	1,461	1,291	1,290
Less: Current liabilities	(4,322)	(8,114)	(1,828)	(184)	(18)	(17)
Net current assets	297	2,293	1,129	1,277	1,273	1,273
	970	2,966	1,802	1,950	1,946	1,946
Financed by :-						
Share capital	1,700	1,700	1,700	1,700	1,700	1,700
(Accumulated losses)/ Retained profits	(730)	1,266	102	250	246	246
Shareholders' funds	970	2,966	1,802	1,950	1,946	1,946
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,700	1,700	1,700	1,700	1,700	1,700
Net tangible assets ("NTA") (RM'000)	970	2,966	1,802	1,950	1,946	1,946
NTA per ordinary share (RM)	0.57	1.74	1.06	1.15	1.14	1.14

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.8 IWSSB**

	← Audited →					
	As at 2 January 1998	← As at 31 July →				As at 31 January 2003
	RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Expenditure carried forward	7	8	-	-	-	-
Current assets	-	1	1,356	1,567	1,802	1,405
Less: Current liabilities	(7)	(9)	-	(14)	(19)	(20)
Net current (liabilities)/assets	(7)	(8)	1,356	1,553	1,783	1,385
	#	#	1,356	1,553	1,783	1,385
Financed by :-						
Share capital	#	#	20	20	20	20
Retained profits	-	-	1,336	1,533	1,763	1,365
Shareholders' funds	#	#	1,356	1,553	1,783	1,385
Number of ordinary shares of RM1.00 each in issue at year end ('000)	*	*	20	20	20	20
Net tangible assets ("NTA") (RM'000)	-	-	1,356	1,553	1,783	1,385
NTA per ordinary share (RM)	1.0	1.0	67.8	77.7	89.2	69.25

* 2 ordinary shares of RM1.00 each

RM2

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.9 EUCSB**

	← Audited →					As at 31 January 2003 RM'000
	← As at 31 July →					
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	
Property, plant and equipment	424	336	128,424	121,575	114,894	111,685
Development expenditure	3,272	3,272	-	-	-	-
Construction work-in-progress	44,557	133,660	-	-	-	-
Investments	4,292	4,292	4,292	4,292	4,292	4,292
Goodwill*	-	-	3,108	2,944	2,780	2,698
Current assets	2,324	11,678	5,724	9,691	15,059	17,420
Less: Current liabilities	(6,634)	(41,287)	(30,654)	(16,652)	(16,406)	(17,176)
Net current liabilities	(4,310)	(29,609)	(24,930)	(6,961)	(1,347)	244
Expenditure carried forward	1,797	1,797	-	-	-	-
	50,032	113,748	110,894	121,850	120,619	118,919
Financed by :-						
Share capital	2,000	2,047	2,047	2,047	2,047	2,047
Share premium	-	46,953	46,953	46,953	46,953	46,953
Exchange equalisation reserve	5,140	5,084	5,084	5,084	5,084	5,084
Retained profits	831	792	5,890	12,688	25,576	31,129
Shareholders' funds	7,971	54,876	59,974	66,772	79,660	85,213
Minority Interests	4,093	4,104	4,561	5,247	6,309	6,646
Amounts due to an affiliated company	37,968	38,101	37,024	431	450	460
Bank borrowings	-	16,667	9,335	49,400	34,200	26,600
	50,032	113,748	110,894	121,850	120,619	118,919
Number of ordinary shares of RM1.00 each in issue at year end ('000)	2,000	2,000	2,000	2,000	2,000	2,000
Net tangible assets ("NTA") (RM'000)	6,174	53,079	56,866	63,828	76,880	82,515
NTA per ordinary share (RM)	3.09	26.54	28.43	31.91	38.44	41.26

* Goodwill arose from the acquisition of BAWC. It was amortised, resulting in its reduction in subsequent years.

12. ACCOUNTANTS' REPORT (Cont'd)**4.10 SESSB**

	←———— Audited —————→					
	←———— As at 31 July —————→					As at 31 January
	1998	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Plant and equipment	-	-	-	-	-	36
Current assets	123	121	120	117	114	5,593
Less: Current liabilities	(2)	(2)	(2)	(2)	(2)	(3,862)
Net current assets	121	119	118	115	112	1,731
	121	119	118	115	112	1,767
Financed by :-						
Share capital	250	250	250	250	250	250
Reserves	(129)	(131)	(132)	(135)	(138)	1,517
Shareholders' funds	121	119	118	115	112	1,767
Number of ordinary shares of RM1.00 each in issue at year end ('000)						
- 2 ordinary shares of RM1 each						
- 499,998 ordinary shares of RM1 each and paid up to RM0.50	500	500	500	500	500	500
Net tangible assets ("NTA") (RM'000)	121	119	118	115	112	1,767
NTA per ordinary share (RM)	0.24	0.24	0.24	0.23	0.22	3.53

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.11 SBSSB**

	← Audited →					As at 31 January 2003 RM'000
	← As at 31 July →					
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Current assets	2	2	-	-	2,458	2,186
Less: Current liabilities	(1,083)	(1,084)	(1,086)	(1,089)	(3,899)	(3,628)
Net current liabilities	(1,081)	(1,082)	(1,086)	(1,089)	(1,441)	(1,442)
Financed by :-						
Share capital	1,400	1,400	1,400	1,400	1,400	1,400
Accumulated losses	(2,481)	(2,482)	(2,486)	(2,489)	(2,841)	(2,842)
Shareholders' funds	(1,081)	(1,082)	(1,086)	(1,089)	(1,441)	(1,442)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,400	1,400	1,400	1,400	1,400	1,400
Net tangible assets ("NTA") (RM'000)	(1,081)	(1,082)	(1,086)	(1,089)	(1,441)	(1,442)
NTA per ordinary share (RM)	(0.77)	(0.77)	(0.78)	(0.78)	(1.03)	(1.03)

(The remaining page is intentionally left blank)

12. ACCOUNTANTS' REPORT (Cont'd)**4.12 SKSB**

	←———— Audited —————→					As at 31 January 2003 RM'000
	←———— As at 31 July —————→					
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Current assets	898	897	857	854	851	850
Less: Current liabilities	(42)	(42)	(42)	(42)	(42)	(41)
Net current assets	856	855	815	812	809	809
Financed by :-						
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Accumulated losses	(144)	(145)	(185)	(188)	(191)	(191)
Shareholders' funds	856	855	815	812	809	809
Number of ordinary shares of RM1.00 each in issue at year end ('000)	1,000	1,000	1,000	1,000	1,000	1,000
Net tangible assets ("NTA") (RM'000)	856	855	815	812	809	809
NTA per ordinary share (RM)	0.86	0.86	0.82	0.81	0.81	0.81

4.13 EMCCSB, SASB, SSSB, SCSB and SWHK

No financial information is presented as these companies are insignificant to the Salcon Group.

12. ACCOUNTANTS' REPORT (Cont'd)

5 Proforma Statement of Assets and Liabilities of Salcon Group

The following is a proforma statement of assets and liabilities of the Proforma Salcon Group, which have been prepared for illustrative purposes only, is based on the audited financial statements of Salcon and its subsidiary companies as at 31 January 2003. The proforma statement of assets and liabilities of the Salcon Group have been prepared on the assumption that the subsidiary companies were acquired on 31 January 2003 and should be read in conjunction with the notes thereon.



Proforma	(1)	(2)	(3)	(4)	(5)
	After Share Exchange	After (1) and Acquisition of SEB by Salcon	After (2) and Public Issue	After (3) and Debt Settlement	After (4) and Proposed ESOS
(RM'000)	Audited Balance Sheet of Salcon				
Property, plant and equipment	-	17,521	17,521	17,521	17,521
Investment in associated companies	-	65,723	65,723	65,723	65,723
Other investment	-	140	140	140	140
Investment in jointly controlled entities	-	-	-	-	-
Intangible asset	-	28,417	28,417	-	-
Goodwill	-	3,604	3,604	3,604	3,604
	-	115,405	115,405	86,988	86,988
Current Assets					
Inventories	-	258	258	258	258
Trade and other receivables	-	204,260	204,260	204,260	204,260
Tax recoverable	-	7	7	7	7
Cash and cash equivalents	**	16,138	51,178	20,678	43,629
	**	220,663	255,703	225,203	248,154
Current Liabilities					
Trade and other payables	-	157,974	157,974	129,974	129,974
Borrowings	-	64,043	64,043	64,043	64,043
Taxation	-	2,471	2,471	2,471	2,471
	-	224,488	224,488	196,488	196,488
Net Current (Liabilities)/Assets	** (28,000)	(3,825)	31,215	28,715	51,665
	** 417	111,580	146,620	115,703	138,654

12. ACCOUNTANTS' REPORT (Cont'd)

5 Proforma Statement of Assets and Liabilities of salcon Group (continued)

Proforma	Audited Balance Sheet of Salcon	(1) After Share Exchange	(2) After (1) and Proposed Acquisition of SEB by Salcon	(3) After (2) and Proposed Public Issue	(4) After (3) and Proposed Debt Settlement	(5) After (4) and Proposed ESOS
Financed by:						
Capital And Reserves						
5.11	**	417	80,615	95,215	95,631	105,194
5.12	-	-	-	20,440	17,940	31,328
5.13	-	-	24,952	24,952	(3,881)	(3,881)
	**	417	105,567	140,607	109,690	132,641
Shareholders' funds						
Minority Shareholders' Interests						
5.10	-	-	1,109	1,109	1,109	1,109
	-	-	122	122	122	122
	**	417	111,580	146,620	115,703	138,654
Net tangible assets per share (RM)						
	-	(33.60)	0.29	0.43	0.42	0.49

** RMI

12. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****5.1. Restructuring Scheme**

The Proforma Consolidated Balance Sheets of the Salcon Group as set out above have been prepared solely for illustrative purposes and on the assumption that the following transactions had been effected on 31 January 2003.

(i) Incorporation of Salcon

The incorporation of Salcon, involving the establishment of a new private limited company in Malaysia, is to be used as an investment holding company to facilitate the restructuring of Seng Hup Corporation Berhad ("SHCB"). Salcon was subsequently converted to be a public limited company on 24 February 2003. SSB will later assume the listing status of SHCB pursuant to the Listing Proposals of Salcon Engineering Berhad ("SEB") and SHCB will be delisted.

(ii) Proforma 1 – Share exchange

Salcon is to acquire 100% of SHCB via the issuance of 833,250 new ordinary shares of RM0.50 each in Salcon ("Salcon Shares") at an issue price of RM0.50 per Salcon Share to the existing shareholders of SHCB on the basis of one (1) new Salcon Share for every twenty four (24) shares in SHCB held, i.e. shareholders of SHCB will receive 833,250 Salcon Shares in exchange for 19,998,000 Shares in SHCB held by them.

Upon completion of the share exchange, SHCB will become a wholly-owned subsidiary of Salcon. It is the intention of Salcon to acquire and hold SHCB exclusively for the implementation of the Listing Proposals of SEB with a view of its subsequent disposal.

Upon completion of the Listing Proposals of SEB, Salcon will become the investment holding company for the restructured group.

(iii) Proforma 2 – Acquisition of SEB by SSB

Proforma 2 incorporates the effects of Proforma 1 and acquisition of SEB Group.

Salcon is to acquire the entire issued and paid-up share capital of SEB from SEB's existing shareholders, namely Kumpulan Emas Berhad ("KEB"), Mampu Alam Sdn Bhd ("MASB") and Eminent Triumph Sdn Bhd ("ETSB") (collectively known as "SEB Vendors") for a total consideration of RM80,198,000 to be satisfied by the issuance of 160,396,000 Salcon Shares at an issue price of RM0.50 per Salcon Share.

Upon completion of the acquisition, SEB will become a wholly owned subsidiary of Salcon. Subsequently, the principal activities of the SEB group of companies will be the core business of the Salcon Group.

Proforma 2 also incorporates the effects of SEB group of companies assuming that investment in preference shares of Palm Tech India Ltd has been completed.

12. ACCOUNTANTS' REPORT (Cont'd)**(iv) Proforma 3 – Public issue**

Proforma 3 incorporates the effects of Proforma 1 and 2 and public issue.

Upon completion of the acquisition, Salcon will undertake a public issue of 29,200,000 new ordinary shares of RM0.50 each in Salcon at an indicative issue price of RM1.20 per share. The shares will be issued to the eligible directors and employees of SEB group of companies and the Malaysian public.

The public issue of Salcon shares will enable Salcon to raise RM35 million, of which RM28 million cash will be utilised for the debt settlement to SHCB's Creditors.

(v) Proforma 4 – Debt settlement

Proforma 4 incorporates the effects of Proforma 1, 2 and 3 and debt settlement.

Proforma 4 incorporates the issuance of 833,250 new ordinary shares of RM0.50 each in SSB Shares at par to the Creditors of SHCB.

Apart from that, the proceeds to be raised from the public issue of Salcon shares at an issue price of RM1.20 per share will amount to RM35 million and is to be utilised as follows:

	RM'000
Debt settlement to SHCB creditors	28,000
Working capital	4,540
Restructuring and listing expenses	2,500
	35,040

(vi) Proforma 5 – Proposed Employee Share Option Scheme (Proposed ESOS)

SSB proposes to offer to eligible employees (including eligible executive directors) of SSB, the options to subscribe for SSB Shares. The maximum number of new SSB Shares offered under the Proposed ESOS shall not exceed 10% of the issued and paid-up share capital of the SEB at any point in time during the duration of the proposed ESOS. The Directors of SSB assume that the Proposed ESOS will be fully exercised.

5.2 Basis of preparation

The financial statements of the Proforma Salcon Group and the Company have been prepared in accordance with applicable accounting standards in Malaysia.

5.3 Significant Accounting Policies

The following accounting policies are adopted by the Proforma Salcon Group and the Company.

(a) Basis of Consolidation

The Proforma Salcon Group's financial statements have been prepared based on the audited financial statements of the Company and its subsidiary companies as at 31 January 2003. The results of SEB's subsidiary companies are included in the consolidated financial statements from the date of acquisition. All material related company transactions and balances have been eliminated on consolidation.

12. ACCOUNTANTS' REPORT (Cont'd)



Subsidiary companies are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the proforma consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

A subsidiary company is excluded from consolidation when control is intended to be temporary if the subsidiary company is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiary companies excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the Proforma Salcon Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or reserve on consolidation as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(b) Associated Companies

Associated companies are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associated companies on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associated companies which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associated companies. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

(c) Joint venture

A joint venture is a contractual agreement whereby the Group and other parties have joint control over an economic activity.

In respect of its interest in jointly controlled entities, the Group uses the equity method to account for its interest.

Unrealised profits or losses arising from transactions between the Group and its joint venturers are recognised only to the extent of that portion of the gain or loss which is attributable to the interests of the other venturers. Unrealised losses are recognised in full when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

12. ACCOUNTANTS' REPORT (Cont'd)**(d) Property, Plant and Equipment****i) Owned assets**

Property, plant and equipment except for freehold land and buildings and leasehold properties are stated at cost/valuation less accumulated depreciation.

The Group revalues its properties comprising land and buildings every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

ii) Assets under hire purchase

Property, plant and equipment financed by hire purchase agreements are capitalised at cost. The interest element is charged to income statement over the period of the agreement and accounted for on a sum-of-digits method.

(e) Depreciation

Freehold land and assets under construction are not amortised. Leasehold properties are amortised in equal instalments over the period of the respective leases which range from ten to ninety-nine years.

The straight line method is used to write off the cost of other assets over the term of their estimated useful lives at the following principal annual rates:

	Years
Freehold buildings	50
Furniture and fittings	10
Office equipment	5
Motor vehicles	5
Plant and machinery	5

(f) Impairment

The carrying amount of the Group's assets, other than inventories (refer note 1(i)), assets arising from construction contracts and financial assets (other than investments in subsidiary and associated companies and joint ventures), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

12. ACCOUNTANTS' REPORT (Cont'd)



The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(g) Intangible asset

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation.

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 20 years. An impairment loss is also recognised when the Directors are of the view that there is a diminution in its value which is other than temporary.

In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(h) Investments

Long term investments are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

(i) Inventories

Inventories consist of spares and supplies, are valued at the lower of cost and net realisable value. Cost is the aggregate of cost of purchase and other costs incurred in bringing the stocks to their present location and condition and is determined on the weighted average basis.

(j) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(k) Amount Due From Contract Customers

Amount due from contract customers on construction contracts is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in other payables as amount due to contract customers.

12. ACCOUNTANTS' REPORT (Cont'd)**(l) Cash and Cash Equivalents**

Cash and cash equivalents consist cash on hand, balances and deposits with banks. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

(m) Liabilities

Borrowings and trade and other payables are stated at cost

(n) Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the year.

Deferred taxation is provided under the liability method for all material timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(o) Foreign Currency Transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

	RM
1 USD	3.80
1 SGD	2.19
100 IDR	0.03

(p) Revenue**i) Good sold**

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Construction contracts

Revenue from long term fixed price construction contracts is recognised on the percentage of completion method, measured by reference to surveys of work performed.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

12. ACCOUNTANTS' REPORT (Cont'd)



iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iv) Interest income

Interest income is recognised in the income statement as it accrues taking into account the effective yield on the assets.

(q) Financing Costs

Financing costs comprise interest payable on borrowings.

All interest and other costs incurred in connection with borrowings are expensed as incurred.

12. ACCOUNTANTS' REPORT (Cont'd)

5.4 Property, plant and equipment

Proforma Group (RM'000)	Freehold land	Buildings	Long term leasehold property	Short term leasehold property	Plant and machinery	Motor vehicles	Office equipment, furniture and fixtures	Total	
Cost/Valuation									
Opening balance	491	12,038	411	230	726	5,056	2,829	21,781	
Additions	324	-	-	-	38	1,441	131	1,934	
Write off	-	-	-	-	-	-	(234)	(234)	
Disposals	-	-	-	-	-	(451)	-	(451)	
Transfers	-	-	-	-	85	(85)	-	-	
Closing balance	815	12,038	411	230	849	5,961	2,726	23,030	
Representing items at:									
- Cost	815	1,038	-	-	849	5,961	2,726	11,389	
- Directors' valuation	-	11,000	411	230	-	-	-	11,641	
	815	12,038	411	230	849	5,961	2,726	23,030	
Accumulated depreciation									
Opening balance	-	679	15	35	688	2,389	1,577	5,383	
Charge for the year	-	116	2	3	16	461	169	767	
Write off	-	-	-	-	-	-	(214)	(214)	
Disposals	-	-	-	-	-	(427)	-	(427)	
Transfer	-	-	-	-	7	(7)	-	-	
Closing balance	-	795	17	38	711	2,416	1,532	5,509	
Net book value									
At 31 January 2003	815	11,243	394	192	138	3,545	1,194	17,521	

12. ACCOUNTANTS' REPORT (Cont'd)**5.4 Property, plant and equipment (continued)*****Revaluation***

Short term leasehold property is stated at Directors' valuation based on professional valuation made by Mr Jason Vun Foh Vui, a registered valuer in Henry Butcher, Lim & Long (Sabah) Sdn. Bhd. on the open market basis conducted on 4 July 2001.

Long term leasehold property is stated at Directors' valuation based on professional valuation made by Mr Lim Chow Wah, a registered valuer in Henry Butcher, Lim & Long (Malacca) Sdn. Bhd. on the open market basis conducted on 31 July 2001.

Freehold buildings of a subsidiary company were stated at Directors' valuation based on professional valuation made by Mr Long Tian Chek, a registered valuer in Henry Butcher, Lim & Long Sdn. Bhd. on open market basis conducted on 30 July 2001.

Had the buildings and leasehold properties been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the period would be as follows:

	Proforma Group 31.1.2003 RM'000
Freehold land and buildings	10,672
Long term leasehold property	690
Short term leasehold property	101

	11,463
	=====

Security

Freehold land and buildings of the Proforma Group with net book value of RM697,000 are pledged to a licensed bank as security for bank guarantee granted to a subsidiary company.

Assets under hire purchase

Included in the property, plant and equipment of the Proforma Group are motor vehicles acquired under hire purchase arrangement with net book value of RM2,079,000.

12. ACCOUNTANTS' REPORT (Cont'd)**5.5 Investment in associated companies**

	Proforma Group 31.1.2003 RM'000
Unquoted shares - cost	16,995
- at valuation	11,800
Unquoted preference shares, at cost	26,508
Share of post acquisition profits	10,420
	65,723
	=====
Represented by:	
Group's share of net assets other than goodwill	39,345
Group's share of goodwill in an associated company's own consolidated financial statements	1,079
Goodwill on acquisition, less accumulated amortisation of RM1,932,000	25,299
	65,723
	=====

The Company has pledged 800,000 ordinary shares of RM1 each and 12,000 Redeemable Non-Cumulative Preference Shares of RM1 each in an associated company for banking facilities granted to a subsidiary company of the associated company.

Investment in an associated company was revalued in 1998 by the Directors based on the net present value of future cash flows of the associated company. The valuation was not intended to effect a change in the accounting policy to one of revaluation of unquoted investment.

5.6 Investment in jointly controlled entities

Details of jointly controlled entities are as follows:

	Principal activities	Proportion of ownership interest 31.1.2003
Hydrotek - Salcon Joint Venture	Construction of Min Buri Water distribution pumping station	49%
Salcon - EGI Joint Venture	Johor Bahru Water supply privatisation project - stage 3 works - Contract No. 45	50%
Salcon - SKV Consortium	Supply and installation of trunk mains - Contract No. PIT - 711	60%

In respect of the interest in jointly controlled entities, the Proforma Group uses the equity method to account for its interest.

12. ACCOUNTANTS' REPORT (Cont'd)

5.7	Goodwill	Proforma Group 31.1.2003 RM'000
	<i>Cost</i>	
	Opening balance	3,913
	Acquisition of subsidiary companies	24

	Closing balance	3,937
		=====
	<i>Accumulated amortisation</i>	
	Opening balance	235
	Amortisation charge for the period	98

	Closing balance	333
		=====
	Net book value	3,604
		=====
5.8	Trade and other receivables	Proforma Group 31.1.2003 RM'000
	Trade receivables	114,605
	Less: Allowance for doubtful debts	(3,066)

		111,539
	Amount due from contract customers	77,106
	Associated company	4,406
	Related companies	4,558
	Other receivables, deposits and prepayment	6,651

		204,260
		=====
	<i>Amount due from contract customers</i>	
	Aggregate costs incurred to date	373,092
	Add: Attributable profit	58,814

		431,906
	Less: Progress billings	(357,305)

		74,601
	Amount due to contract customers (Note 5.8)	2,505

	Amount due from contract customers	77,106
		=====

12. ACCOUNTANTS' REPORT (Cont'd)

Included in trade receivables of the Proforma Group are retention sums amounting to approximately RM8,191,000.

Included in trade receivables of the Proforma Group are amount receivable from related parties amounting to RM178,000.

The amounts due from subsidiary and related companies are unsecured, interest free and have no fixed terms of repayment.

The amount due from an associated company is unsecured, interest free and has no fixed terms of repayment.

5.9 Trade and other payables

	Proforma Group 31.1.2003 RM'000
Trade payables	110,476
Other payables and accruals	12,893
Associated companies - loan	3,380
Related company	720
Amount due to contract customers (Note 5.7)	2,505
	<hr/>
	129,974
	<hr/> <hr/>

Included in other payables and accruals of the Proforma Group are advances received from contract customers amounting to RM5,663,000.

The amounts due to subsidiary and related companies are unsecured, interest free and have no fixed terms of repayment.

The amount due to associated companies is unsecured, bears interest at a rate of 5% per annum and has no fixed terms of repayment.

5.10 Borrowings

	Proforma Group 31.1.2003 RM'000
Current	
Bank overdraft - (secured)	61
- (unsecured)	574
Bankers' acceptances (unsecured)	27,725
Revolving credits (unsecured)	35,279
Hire purchase creditors	404
	<hr/>
	64,043
	<hr/> <hr/>
Non-current	
Hire purchase creditors	1,109
	<hr/> <hr/>

12. ACCOUNTANTS' REPORT (Cont'd)**Term and debt repayment schedule**

The bank borrowings bear interest at rates ranging from 3.18% to 8.90% per annum.

The above facilities are guaranteed by KEB.

Certain bank overdraft of the Proforma Group is secured by pledge of fixed deposits.

Hire purchase creditors

Hire purchase creditors are payable as follows:

	31.1.2003		
	Gross RM'000	Interest RM'000	Principal RM'000
<i>Proforma Group</i>			
Less than one year	503	(99)	404
Between one and five years	1,225	(116)	1,109
	<u>1,728</u>	<u>(215)</u>	<u>1,513</u>

5.11 Share Capital

	No. of Salcon Shares	Proforma Group RM'000
Ordinary shares of RM0.50 each		
Authorised	<u>200,000*</u>	<u>100</u>
Issued and fully paid		
Existing issued and paid-up share capital as at 31 January 2003	2	**
Shares to be issued pursuant to the share exchange	<u>833,250</u>	<u>417</u>
Proforma 1	833,252	417
Shares to be issued pursuant to the acquisition of SEB Group of companies	<u>160,396,000</u>	<u>80,198</u>
Proforma 2	161,229,252	80,615
Shares to be issued pursuant to the public issue	<u>29,200,000</u>	<u>14,600</u>
Proforma 3	190,429,252	95,215
Shares to be issued to SHCB's Creditors as part of the debt settlement	<u>833,250</u>	<u>416</u>
Proforma 4	191,262,502	95,631
Shares to be issued pursuant to the exercise of ESOS options	<u>19,126,000</u>	<u>9,563</u>
Proforma 5 – Enlarged and issued paid up capital	210,388,502	105,194

* Authorised capital is subject to increase to accommodate the increase in issued and paid-up capital.

** RM 1

12. ACCOUNTANTS' REPORT (Cont'd)**5.12 Share premium**

	RM'000
Existing	-
Arising from the Share Exchange	-
	-
Arising from the Acquisitions of SEB by Salcon	-
	-
Arising from the Public Issue	20,440
	20,440
Less: Estimated restructuring and listing expenses	(2,500)
	17,940
Arising from the full exercise of ESOS options	13,388
	31,328

5.13 Reserves

The acquisition of SEB and PTIL will result in a reserve on consolidation of RM24,952,000.

The acquisition of SHCB and debt settlement to SHCB's Creditors will give rise to an intangible asset amounting to RM28,833,000. The write-off of the said intangible asset will result in negative reserves.

5.14 Contingent liabilities

	Proforma Group 31.1.2003 RM'000
Guarantees and contingencies relating to borrowings of associated companies (unsecured)	16,720
Bank guarantee given to third parties relating to tender bond, performance bond and advance payment bond	
- secured	1,687
- unsecured	43,957
	<u>62,364</u>
	=====

12. ACCOUNTANTS' REPORT (Cont'd)**5.15 Proforma Net tangible Assets Cover**

Based on the proforma statement of assets and liabilities of the Salcon Group as at 31 January 2003, the net tangible assets cover per ordinary share after restructuring exercise and estimated listing expenses is calculated as follows:-

Proforma net tangible assets as at 31 January 2003 (RM'000)	102,659 =====
Number of ordinary shares of RM0.50 each in issue ('000)	210,388 =====
Proforma net tangible assets per ordinary share (RM)	0.49 =====

5.16 Audited Financial Statements

No audited financial statements of Salcon and its subsidiary companies have been made up in respect of any period subsequent to 31 January 2003.

Yours faithfully

KPMG
Firm Number: AF0758
Chartered Accountants

HEW LEE LAM SANG
Partner
Approval Number: 1862/10/03(J)